

Diving In: See Opportunity in a Gas & Water Utility Hybrid

Initiating Coverage: BUY | PO: 45.00 USD | Price: 41.00 USD



Equity | 15 July 2019

Making a Splash: The gas uplift is real for EPS growth

We are initiating coverage on WTR, the second largest publicly traded water utility, with a Buy rating and \$45 price objective. While we view the water sector overall as particularly pricey, we see a unique EPS revision potential for WTR as enabling a unique opportunity: we are above Street pro-forma for the Peoples Gas transaction (even with the full share o/s uplift), with our '20 EPS indicating upwards of \$1.74 vs. Street of \$1.55 (albeit unclear on what basis); we remain above Street on '21 EPS too with largely flat EPS still (\$1.75 vs. Street of \$1.66). While proforma EPS remains opaque prior to close, opportunities around Peoples Gas around repairs tax enable a potentially strong start to the EPS profile. While less confident on a precise figure, we perceive an upward bias relative to Street EPS expectations. While shares have already meaningfully rallied off lows, we sense a further re-rating opportunity as comfort emerges around the combined outlook. The deal comes on the heels of WTR's own step-down in EPS with normalization of earned ROEs at its principal subsidiary in PA, which has enabled outsized returns vs. authorized levels for years.

Water remains a pricey, but high quality & growth niche

We see the water sub-sector as lower risk vs. utility peers, with low overall consumer bills, opportunities for municipal consolidation across both water & waste-water systems affording a long tail of opportunities at above-sector growth. Smaller capital investments & recovery mechanisms limit material exposure to discrete project approval & afford for a more consistent return profile. Gas utilities fit many of these criteria with few large discrete projects

Valuing the Combined Company: The Right Move.

We use a SOTP analysis to value the company, applying a blended multiple (26.2x for water and 21.2x for gas). The Peoples Gas acquisition comes as water utilities are trading at what we see as an unsustainable premium to adjacent sectors. The ability to add among the highest growth utility assets at a discount to its own water multiple as particularly de-risking shares & strategically opportunistic.

Estimates (Dec)

(US\$)	2017A	2018A	2019E	2020E	2021E
EPS	1.36	1.41	1.22	1.74	1.75
GAAP EPS	1.36	1.41	1.22	1.74	1.75
EPS Change (YoY)	3.0%	3.7%	-13.5%	42.6%	0.6%
Consensus EPS (Bloomberg)			1.36	1.55	1.66
DPS	0.81	0.86	0.92	0.99	1.06

Valuation (Dec)

	2017A	2018A	2019E	2020E	2021E
P/E	30.1x	29.1x	33.6x	23.6x	23.4x
GAAP P/E	30.1x	29.1x	33.6x	23.6x	23.4x
Dividend Yield	2.0%	2.1%	2.2%	2.4%	2.6%
EV / EBITDA*	1.1x	8.0x	26.2x	16.4x	15.6x
Free Cash Flow Yield*	-1.1%	-1.4%	-1.9%	-1.4%	-1.0%

* For full definitions of *IQmethod*SM measures, see page 29.

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Stock Data

Price	41.00 USD
Price Objective	45.00 USD
Date Established	15-Jul-2019
Investment Opinion	A-17
52-Week Range	32.09 USD - 42.14 USD
Mkt Val (mn) / Shares Out (mn)	8,845 USD / 215.7
Average Daily Value (mn)	37.97 USD
BofAML Ticker / Ex change	WTR / NAS
Bloomberg / Reuters	WTR US / WTR.N
ROE (2019E)	8.1%
Net Dbt to Eqty (Dec-2018A)	127.1%

DSIC: Distribution Service
Improvement Charge

iQmethodSM – Bus Performance*

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Return on Capital Employed	5.1%	3.9%	4.4%	5.2%	5.1%
Return on Equity	12.6%	9.7%	8.1%	8.6%	8.3%
Operating Margin	41.5%	38.7%	48.1%	70.3%	71.2%
Free Cash Flow	(97)	(127)	(170)	(120)	(87)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash Realization Ratio	1.6x	1.9x	1.7x	1.8x	1.9x
Asset Replacement Ratio	3.5x	3.4x	3.3x	2.6x	2.5x
Tax Rate	6.6%	NM	10.0%	10.0%	10.0%
Net Debt-to-Equity Ratio	108.3%	127.1%	98.1%	101.2%	103.9%
Interest Cover	3.9x	2.8x	3.4x	3.5x	3.3x

Income Statement Data (Dec)

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Sales	805	835	902	949	966
% Change	0.6%	3.7%	8.0%	5.3%	1.7%
Gross Profit	810	838	1,044	1,596	1,657
% Change	-1.3%	3.5%	24.6%	52.9%	3.8%
EBITDA	14,226	1,941	597	954	999
% Change	-33.6%	-86.4%	-69.2%	59.7%	4.8%
Net Interest & Other Income	(88)	(99)	(132)	(196)	(211)
Net Income (Adjusted)	240	192	272	413	416
% Change	2.4%	-19.9%	41.6%	52.1%	0.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Net Income from Cont Operations (GAAP)	240	192	287	442	445
Depreciation & Amortization	137	147	191	330	356
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	14	(15)	0	0	0
Other Adjustments, Net	(9)	45	(10)	(26)	(3)
Capital Expenditure	(478)	(496)	(639)	(865)	(885)
Free Cash Flow	-97	-127	-170	-120	-87
% Change	NM	-31.5%	-33.9%	29.7%	27.7%

Balance Sheet Data (Dec)

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash & Equivalents	4	4	3	5	5
Trade Receivables	99	101	126	193	200
Other Current Assets	28	42	46	57	58
Property, Plant & Equipment	5,400	5,930	9,103	9,638	10,168
Other Non-Current Assets	801	887	2,462	2,462	2,462
Total Assets	6,332	6,964	11,741	12,355	12,893
Short-Term Debt	117	160	289	312	333
Other Current Liabilities	167	239	258	309	315
Long-Term Debt	2,008	2,398	4,330	4,664	4,980
Other Non-Current Liabilities	2,083	2,158	2,158	2,158	2,158
Total Liabilities	4,375	4,955	7,035	7,442	7,785
Total Equity	1,958	2,009	4,706	4,913	5,108
Total Equity & Liabilities	6,332	6,964	11,741	12,355	12,893

* For full definitions of iQmethodSM measures, see page 29.

Company Sector

Water Utilities

Company Description

Aqua America is a regulated water utility providing water or wastewater services to 3M customers in the states of PA, OH, TX, IL, NC, NJ, IN, and WV, with PA segment being the largest contributor to the NI. In Oct 2018, The company announced acquisition of Peoples Gas, a gas utility providing distribution services to 740,000 customers in PA, WV, and KY. The acquisition is expected to be closed by mid- 2019.

Investment Rationale

We see our Buy rating as supported by meaningfully above Street EPS projections on the back of its pending Peoples Gas business and above average ratebase growth.

Stock Data

Average Daily Volume 926,118

Quarterly Earnings Estimates

	2018	2019
Q1	NA	NA
Q2	NA	NA
Q3	NA	NA
Q4	NA	NA

Investment Thesis

We are initiating coverage on WTR with a Buy rating and \$45 price target. Our estimates are meaningfully above the street, and we see higher revisions to numbers likely providing support for shares to move yet higher even after their de-risking post equity offering, particularly as we see risk to the multiples of pure water peers with less diverse growth prospects. We see growth as largely driven from Peoples Gas moving forward, where we expect the company to capture strong earnings power from repairs tax benefits in PA. We see an 11% total return to our price objective of \$45, with further potential EPS upside if particularly successful in extracting ROE benefits in its core Peoples Gas utility from repairs tax benefits.

Strong Returns with Constructive Reg Backdrop

Following the acquisition expected to close this Fall, the company will be largely located in PA (the company received regulatory approval for Peoples in KY and WV and hearings PA hearings were recently completed) - a constructive utility jurisdiction, and will have a variety of mechanisms in place across states in which it operates to help drive recovery through rates. 46% of the company's legacy business is DSIC eligible, which they can leverage to stay out of formal ratecases, with a step up to 57% of spending DSIC eligible under the combined company. We have seen WTR utilize a repairs tax benefit in their legacy business that has helped to drive earnings without rate cases, and we could see a similar development on the gas side of the business post acquisition. If implemented, this should help to drive returns meaningfully higher over the next several years before any benefit is pushed back through to customers in a ratecase. We expect this to be a big driver of near term earnings, and a large reason why our estimates are well above the street.

What Are the Right ROEs for the Water Biz?

While ROEs are somewhat nuanced across WTR's footprint given varying mechanisms and the black box nature of some ratecase ROEs such as WTR's recent PA case, we expect the company to generally earn their authorized returns across most jurisdictions. 46% of WTR's business is currently DSIC eligible, which they can leverage to stay out of ratecases longer when returns start to fall. While their latest authorized ROE in Pennsylvania - the company's largest jurisdiction - isn't known, we suspect it to be close to around 10%. However, the company should benefit more in 2019 given the forward looking nature of the test year, with returns hovering at authorized levels across their water business looking forward. We see the regulatory construct in NC as the most challenging, with the commission historically focusing on water consumption, which typically declines 1% annually. That said, we note the company's small presence in the jurisdiction (~100K customers). While not likely to be material, an acceleration in muni acquisitions can also challenge modeling ROEs and create some regulatory lag.

Why Diversify into Gas? Ensuring Organic Prospects

Why invest in a gas utility when premiums are so material for stand-alone water companies? We see this as a bit of an experiment as to how investors will value a hybrid utility company considering the strong investor appetite for water today.

We see the gas transaction as principally motivated by its desire to firm up its own EPS growth outlook with the Peoples Gas business projected to grow its ratebase by 8-10% per mgmt. guidance, notably *higher* than WTR's stand-alone prospects of 7% (this is itself slower than the 8.7% EPS CAGR we have for its closest competitor AWK). We appreciate that gas utilities have more meaningful near-term prospects, but the underlying tension that is less clear is the question of how sustainable the ratebase growth profile is for each company? We believe current Street perception is that the ratebase growth outlook for water is more sustainable than that of gas. Should the reality be that gas growth is indeed more sustainable - whether on a discrete basis for Peoples Gas or for the wider gas utility industry - the valuation premium currently ascribed to the water industry could be in question, particularly as it continues to expand.

What about having other businesses? AWK experience has been positive

Contrasting with the Peoples Gas business, American Water, its closest competitor also maintains ongoing non-regulated operations as part of its overall business mix. The company has highlighted how this will not expand beyond 15% of the overall company and is designed to provide complementary opportunities to raise cash in a manner to minimize external equity. We see this firm cap as effective in reducing Street focus on this business at large. While actually achieving EPS growth for AWK has been another story given the specific non-reg efforts pursued, investor willingness to discount the company for these less valuable businesses has been less clear.

Without a set of comparisons, it's hard to say what the 'right' water multiple (and premium vs. electric utilities should be).

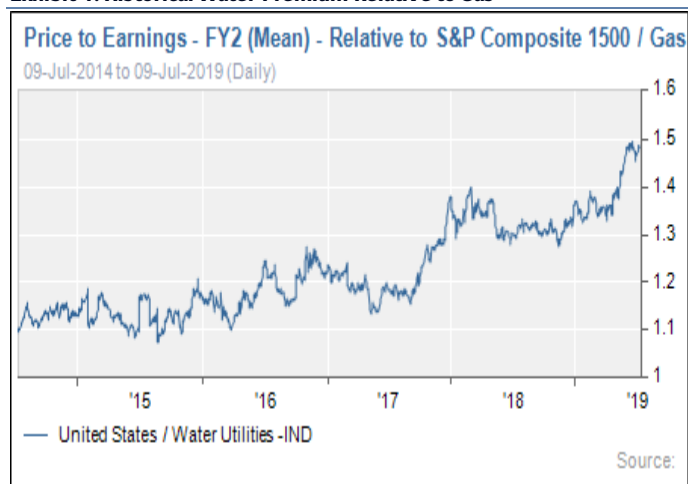
AWK's decision to pursue non-reg efforts as well as WTR's decision to pursue non-water efforts should in theory partially dilute down their exposure to pure-play water utility earnings growth. However, there is little evidence thus far this indeed the case.

We value Aqua America using a SOTP approach, ascribing an average of peer water utilities for its core water operations and ascribing a gas multiple for its gas businesses. We see upside to street estimates for WTR as supportive, particularly given the uncertainty around the water multiple more broadly. Our forward looking estimates reflect earnings on a combined basis with Peoples Gas.

Water: A Premium Product?

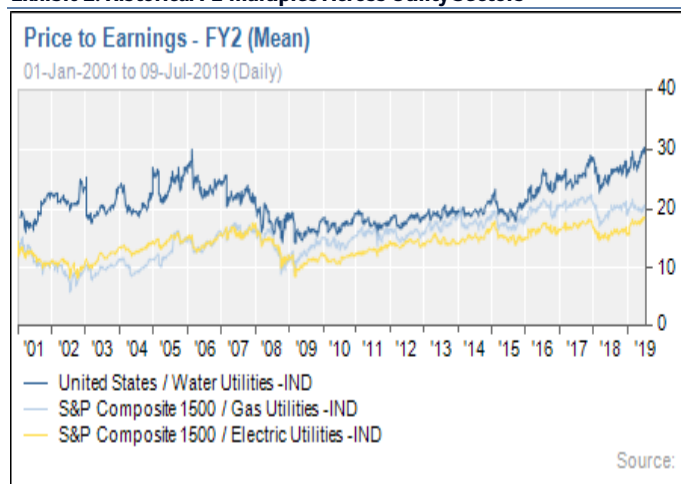
The exhibits below show the historical two year forward P/E ratio for water, gas, and electric utilities, as well as a history of water's premium over gas. While water has consistently traded at a premium to gas and electric, we note a strong acceleration in the spread more recently. We believe the historical premium is largely driven by water utilities' lower project risk associated with smaller and frequent projects, lower compliance and regulatory risk, and lower overall levels of scrutiny.

Exhibit 1: Historical Water Premium Relative to Gas



Source: BofA Merrill Lynch Global Research, FactSet

Exhibit 2: Historical PE multiples Across Utility Sectors



Source: BofA Merrill Lynch Global Research, FactSet

Water Growth Leading the Charge

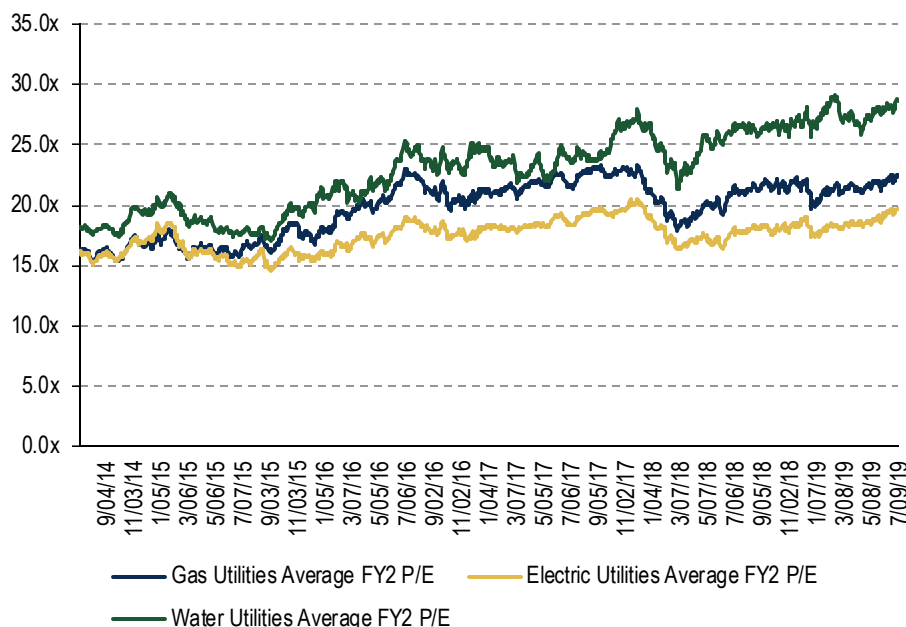
In the exhibit below, we reflect Consensus estimates for growth across the water, electric, and gas utility sectors. From 2018 through 2021, water is expected to grow at the fastest pace, at an 8% CAGR relative to 5% CAGRs for gas and electric, respectively. We also highlight the smaller variation y/y across the water space.

Table 1: Just how fast do utilities grow?

	2018	2019	2020	2021	2018-2021 CAGR
Water Utilities	4%	6%	9%	9%	8%
Gas Utilities	13%	-2%	10%	7%	5%
Electric Utilities	8%	2%	7%	6%	5%

Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 1: Historical PEs Across Sectors



Source: BofA Merrill Lynch Global Research, FactSet

How did the Peoples Gas Transaction Come About?

The company is acquiring Peoples Natural Gas from SteelRiver Infrastructure Partners. SteelRiver is the successor of Babcock & Brown Infrastructure Fund North America. The current company was created through the acquisition of Peoples in February 2010, TW Phillips in May 2011, Equitable in December 2013, and Delta Gas in September 2017. Our sense is that the Steel River fund was looking to sell as it approaches maturity, presenting an opportunity for Aqua America to diversify their business.

Why does water trade at such a premium & does adding gas create a risk?

This is the second critical question for Aqua America in its bold move to acquire Peoples Gas. We believe much of the outsized premium for water utilities broadly is a direct result of a capital flows from ESG-specific funds allocating capital into the most palatable utilities. We ascribe a scarcity premium to water utilities relative to available capital. That said, we question the sustainability of the water premium broadly following the latest re-ratings, and expect gas driven earnings growth to provide relative support.

Business Overview

Aqua America is the second largest publicly traded water utility with corporate headquarters in Bym Mawr, Pennsylvania. The company currently operates in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana and Virginia. Following the close of the acquisition of Peoples Natural Gas now expected in Fall 2019 (from mid-2019 previously), the company will also operate in West Virginia and Kentucky, with a pro forma rate base of over \$7Bn (70% of combined company net income and rate base in water and wastewater).

Aqua Pennsylvania

Aqua Pennsylvania is the company's largest operating subsidiary, and accounted for ~53% of operating revenues and 71% of the regulated segment income in 2018.

Recent & Pending Acquisitions: Momentum in Muni Tuck-Ins

The acceleration of Fair Market Value Legislation in a number of jurisdictions has made muni acquisitions more palatable, and we continue to expect WTR to drive incremental rate base growth through additional tuck-ins. The company completed six muni acquisitions in 2018 for an incremental 100mn in rate base, with another 6 signed agreements pending closing. While we don't anticipate any large water acquisitions, we expect to see additional announcements over the course of the year. Mgmt has noted active pursuit in four of their existing states totaling over 400K customers, but has not disclosed the particular states they are pursuing the larger acquisitions.

Table 2: Acquisitions in 2018

Acquisitions - Closed in 2018	State	Rate Base	Customers	Ratebase Composition	Customer Concentration
Sun Valley	PA	0	81	0%	1%
Firestone Trace	OH	0	367	0%	3%
Manteno	IL	25	3,890	24%	27%
Limerick	PA	64	5,497	60%	39%
Peotone	IL	13	3,083	12%	22%
East Bradford	PA	5	1,240	5%	9%
Total		107	14,158	100%	100%

Inorganic Growth	14,158
Organic Growth	8,500

Source: Company report

The company is currently awaiting approvals for another six acquisitions YTD, largely concentrated in the state of PA (~95% on purchase price basis) with an overall purchase price consideration of \$110M that would likely add another 19.4K customers (with 18k based out of PA).

Table 3: Pending Acquisitions - YTD

Pending Acquisitions	State	Purchase Price	Customers	Ratebase Composition	Customer Concentration
New garden	PA	30	2,106	27%	11%
Schuy kill	PA	4	600	3%	3%
Grant Park	IL	2	540	2%	3%
Cheltenham	PA	50	10,450	46%	54%
Sky line	IL	4	752	3%	4%
East Norriton	PA	21	4,952	19%	26%
Total		110	19,400	100%	100%

Source: Company report

Peoples Natural Gas

In 2018, WTR announced the acquisition of Peoples Natural Gas in an all-cash transaction that reflects an enterprise value of \$4.3Bn (including \$1.3Bn of debt). The company is headquartered in Pittsburgh, PA and provides natural gas distribution services to over 740K customers in three states (PA, KY, and WV; with KY and WV

expanding WTR's legacy geographic footprint). The company has ~15,500 miles of distribution pipeline, 1,500 miles of gathering pipeline and 250 miles of intrastate transmission pipeline. WTR has noted a 3,100 mile bare steel and cast pipe replacement opportunity at about 150 miles per year (implies 20+ years increased capex). In the near term, the company projects annual rate base growth of ~8-10% following a Pennsylvania rate case filed in January and new rates expected in the fall. Through the acquisition, WTR seeks to create a multi-platform regulated utility company, and expects the acquisition to be accretive to earnings in the first full year.

Pipeline Opportunity: Peoples has identified 3,000+ miles of bare steel and cast iron pipe to be replaced under their Long-term Infrastructure Improvement Plan (LTIIIP) by 2034 in its PA service territory. The company currently has a Distribution System Improvement Charge (DSIC) in place that allows for the accelerated recovery of capital between rate cases. We see this as a key component of the company's ability to make timely recovery with minimal regulatory lag.

Operating Territories

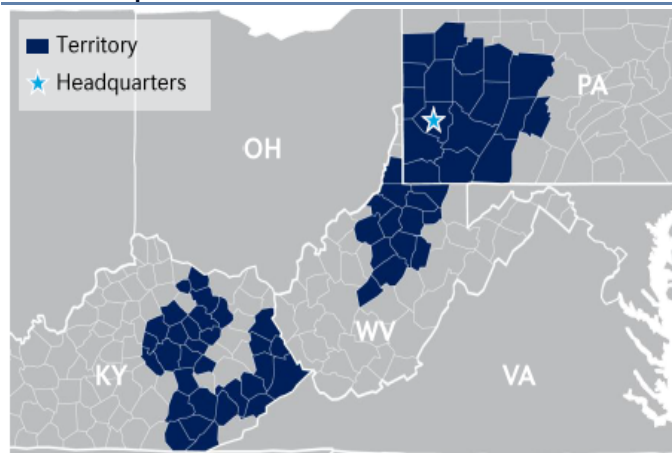
Below we include the map of operating service territories of WTR and Peoples Gas on a standalone and pro forma basis. While WTR is currently present in the states of PA, OH, TX, IL, NC, NJ, and IN, Peoples Gas currently provides services in the states of KY, WV, and PA. Pennsylvania remains the only state where the footprints overlap.

Exhibit 3: Aqua America service areas – stand alone



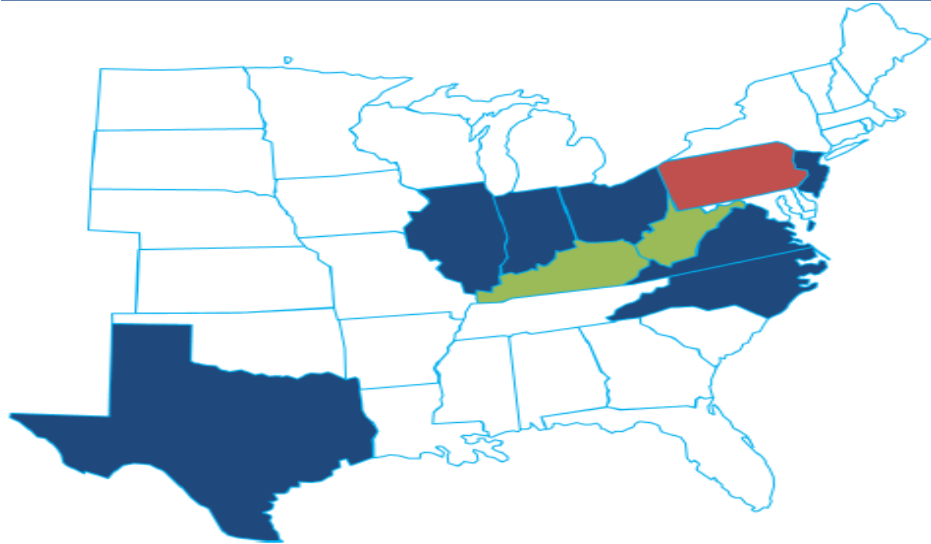
Source: Company Report

Exhibit 4: Peoples Gas service areas – stand alone



Source: Company Report

Exhibit 5: Combined Entity – Post acquisition service territories – PA being the common state



Source: Company Report

Rate Base: History and Beyond

Ratebase – WTR prior to Peoples Gas Transaction

We highlight that standalone ratebase for WTR as of yearend '18 stood at \$4.5B for WTR with 878k water and 128K waste water connections, respectively. PA remains the single largest contributor to the company, contributing ~69% of the total ratebase; given the size of its existing operations and future growth prospects, PA is likely to remain the most critical state in WTR's service territories.

Table 4: Aqua – Standalone – Ratebase/Customer Details

States	Rate Base (\$M)	Water Connections	Wastewater Connections	Total Customers	Ratebase Composition	Total Customer Concentration
PA	3,095	440,487	28,115	468,602	69%	47%
OH	317	145,938	6,878	152,816	7%	15%
IL	320	65,214	15,222	80,436	7%	8%
TX	235	64,360	17,480	81,840	5%	8%
NJ	171	53,639	6,213	59,852	4%	6%
NC	204	81,074	19,114	100,188	5%	10%
IN	83	1,226	26,979	28,205	2%	3%
VA	75	25,843	7,787	33,630	2%	3%
Total	4,499	877,781	127,788	1,005,569	100%	100%

Source: Company report

In 2018, WTR closed six acquisitions across the states of PA, OH, and IL that contribute \$107M to the YE2018 ratebase, adding ~14K customers in the process (in addition to +8.5K of customer growth organically). The company has guided to 2%-3% customer growth from the legacy water business, with management noting about 70bp from new homes and the remainder from muni acquisitions.

Revenue Surcharge

Revenue surcharge is a mechanism through which regulators allow utilities to recover depreciation and capital costs associated with capital expenditures related to replacing and maintaining infrastructure systems. By permitting utilities to add a surcharge on to customer bills without a full rate case, utilities can reduce regulatory lag between completion of a capital project and the recovery of its costs through a formal rate review process. While WTR is permitted to apply a surcharge in seven states for its water utility operations, six states allow a surcharge for its wastewater operations.

Below we include the tables on rate cases/surcharges that are already approved by the respective regulatory commissions, as well as the cases pending before the commission. While completed and approved rate cases and surcharges in the states of IL, OH, and PA will add ~\$5M of annual revenues, pending proceedings if approved could increase revenue requirement by another \$78M. That said, settlement agreements pending approval in PA contemplate a \$47Mn in revenue vs. an original request of \$71Mn.

Table 5: Completed Surcharges in 2019

2019 Completed Surcharges	Revenue Increase (\$M)	Type
IL	2	Surcharges
OH	1	Rate Case
OH	2	Surcharge
PA	0	Surcharges
Total	5	

Source: Company report

Table 6: Pending Surcharges

Pending Surcharges	Revenue Increase	Type	Docket ID
NJ	7	Rate Case (W)	WRT18121351
NC	1	Surcharge (w)	W-218, Sub 497A
NC	0	Surcharge (ww)	W-218, Sub 497A
OH	(4)	Tax Compliance Surcharge	18-1843-WW-UNC & 18-1841-ST-UNC
OH	2	Surcharge (w)	19-567-WW-SIC
PA	58	Rate Case (w)	R-2018-3003558
PA	13	Rate Case (ww)	R-2018-3003561
Total	78		

Source: Company report

Capex

WTR expects standalone rate base to be ~\$5B at the end of 2019, and the company is projecting a CAGR of 7% through 2021. This is driven by \$1.4B in investments over the next three years, with \$550M earmarked for 2019. 46% of WTR's current capex is DSIC eligible.

WTR has guided to capital spending for Peoples Gas of \$297Mn and \$360Mn the next couple of years, largely driven by its Long-term Infrastructure Improvement Plan (LTIIIP) for 3,100 miles of gas pipelines (~150 miles/year for next 20 years). 70% of Peoples capex is DSIC eligible to help reduce the regulatory lag. Under a combined entity, management expects capital spending to be 57% DSIC eligible.

Table 7: Peoples gas – Capex Plan

	2016	2017	2018E	2019E	2020E	2021E
Capex \$M	140	205	280	297	360	360

Source: Company report

Could Clean Water Legislation Provide another Lever?

The Federal Safe Drinking Water Act, the Clean Water Act, and related state laws and regulations could provide further potential capital opportunities. While the US Environmental Protection Agency (EPA) has established health advisory levels at 70 parts per trillion for Perfluorooctanoic acid and Perfluorooctanesulfonic acid, states are increasingly looking to further limit such levels. Our sense from management is that installation of additional filters relating to stricter regulations could be an incremental \$100Mn opportunity.

Texas the Latest to Adopt Fair Market Value Legislation

In 2016, fair market value legislation was enacted in Pennsylvania, WTR's largest jurisdiction, allowing the public utility commission to utilize fair market value to set ratemaking rate base (as opposed to the depreciated original cost of water or wastewater assets) for qualifying muni acquisitions. Under the process, independent valuation experts perform appraisals and the ratemaking base is the lower of the purchase price or average of the appraisals. The legislation ultimately provides a more accretive opportunity through these acquisitions, and we expect to see further tuck-ins across the water utility sector as the legislation gains momentum in additional jurisdictions. We highlight that six other states that WTR operates in currently have fair value legislation: Illinois, Indiana, New Jersey, North Carolina, Ohio and most recently Texas. Virginia is now the only state where Aqua operates without the legislation at the moment.

Ratebase – Peoples Gas

The table below reflects the rate base by state for Peoples Gas as of the end of 2018. Of the \$2.1 total ratebase, PA represented \$1.9Bn with small allocations for KY and WV. Looking forward, the company expects to grow ratebase at a 8%-10% CAGR through 2021.

Table 8: Peoples gas – Ratebase - standalone

State	Rate Base (\$M)	Connections
PA	1,939	693,244
KY	108	38,701
WV	26	12,868
Total	2,073	744,813

Source: Company report

Peoples Gas filed its PA rate case earlier this year (Docket No. R-2018-3006818) for the first time since 2012. The request is for a revenue increase of \$94.9m with a projected rate base of ~\$2.1B for the test year ending October 2020. While rates are expected to go into effect in fall 2019, the rate case proceeding is ongoing. After rates go into effect, we expect the company to look at utilizing the repairs tax benefits to drive

material earnings growth for the gas business over the next several years. Under the treatment, the company could maintain any new revenue requirement while driving down the tax rate through expensing as opposed to capitalizing certain improvements.

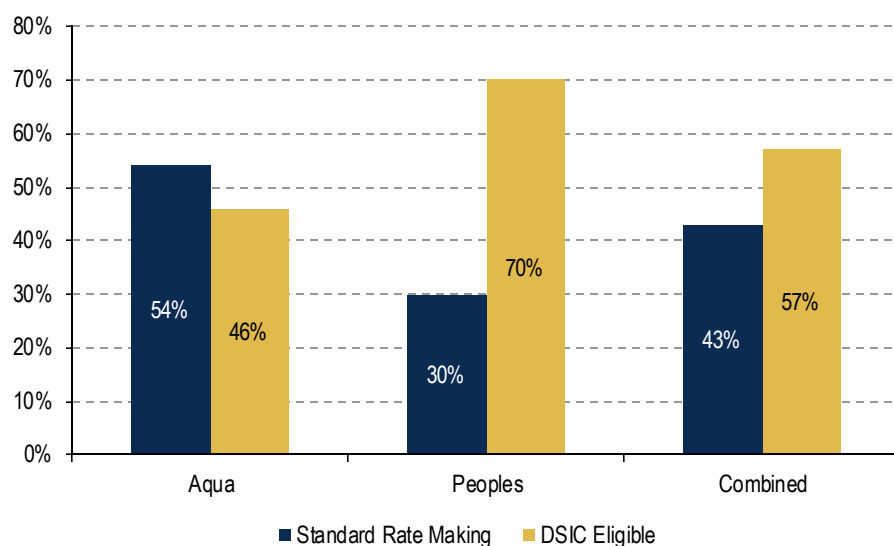
Table 9: Applicable surcharge and Mechanisms

State	Allowed Surcharge	Mechanism
Aqua		
IL	2.5% avg annual increase	QIPS
IN	10%	DSIC
NC	5%	WSSIC
NJ	Water - 5%	DSIC
OH	12.75% - water; 9% - wastewater	SIC
PA	7.5% - water; 5% - wastewater	DSIC
Peoples		
PA	5%	DSIC
KY	No Cap	PRP
DSIC	Distribution System Improvement Charge	
WSSIC	Water and Sewer System Improvement Charge	
QIPS	Qualifying Infrastructure Plant Surcharge	
PRP	Pipeline Replacement Program	

Source: Company report

Below, we highlight the % of planned capex from 2019 through 2021 that is eligible for DSIC and that of which is dependent on Standard Rate Making procedures. On a combined basis, management has highlighted over half of pro forma capital spending will be DSIC eligible, an incremental 11% relative to WTR's standalone mechanisms.

Chart 2: % of capex 2019-2021 recovered through DSIC



Source: Company report

Projected Combined Rate base

In the exhibit below, we reflect average rate base by company and on a pro forma basis. Management has guided to 7% for the standalone water utility with stronger growth of 8%-10% for Peoples Natural Gas. Our water utility rate base assumes just under 100Mn in annual tuck in acquisitions.

Table 10: Projected Ratebase

Average Ratebase	2019E	2020E	2021E	2022E	2023E
Water Utility	4,748	5,171	5,513	5,842	6,158
Ratebase growth		8.9%	6.6%	6.0%	5.4%
Guidance (RB CAGR 7% 19-21E, excluding acquisitions)			7.8%		
Peoples Gas	2,100	2,293	2,482	2,679	2,881
Ratebase growth		9.2%	8.3%	7.9%	7.6%
Guidance (RB CAGR 8-10% 19-21E)			8.7%		
Pro Forma	6,848	7,464	7,996	8,521	9,039
Ratebase growth		9.0%	7.1%	6.6%	6.1%
CAGR			8.1%		

Source: BofA Merrill Lynch Global Research estimates, company report

Combined Company Will Be Heavily Exposed to PA Jurisdiction

The Pennsylvania Public Utility Commission (PUC) consists of five commissioners – Gladys Brown Dutrieuille (D – Chairman), David Sweet (D – Vice Chairman), John Coleman (R), Andrew Place (D), Norman Kennard (R) – and 503 commission staff members. The commissioners are appointed to serve five years with the governor appointing a chairman. No more than three commissioners may be from the same political party.

NJ Jurisdiction

The New Jersey Board of Public Utilities (NJ BPU) consists of five commissioners – Joseph Fiordaliso (D - President), Mary-Anna Holden (R), Dianne Solomon (R), Upendra Chivukula (D), Robert Gordon (D) – and 247 staff members. The commissioners are appointed to serve six years with the governor appointing president. The NJ BPU has adopted fair market value legislation as well as a 5% DSIC mechanism for the water utility.

KY Jurisdiction

The Kentucky Public Service Commission (PSC) consists of three commissioners – Michael J. Schmitt (R – Chairman), Robert Cicero (R – Vice Chairman), Talina R. Mathews (R) – and approximately 70 staff members. The commissioners are appointed to serve 4 years with the governor appointing a chairperson.

IL Jurisdiction

The Illinois Commerce Commission (ICC) consists of five commissioners – Carrie K. Zalewski (D – Chairman), Brien Sheahan (R), Sadzi Martha Oliva (R), D. Ethan Kimbrel (D), Maria S Bocanegra (I – Acting Commissioner) – and 232 staff members. The commissioners are appointed to serve five year terms with the governor appointing the chairman.

IN Jurisdiction

The Indiana Utility Regulatory Commission (IURC) consists of five commissioners – Jim Huston (R – Chairman), Sarah Freeman (D), Stefanie Krevda (R), David Ober (R), David E. Ziegner (D) – and approximately 75 staff members. The commissioners are appointed to serve four year terms with the governor appointing a chairman to serve for four years.

NC Jurisdiction

The North Carolina Utilities Commission (NCUC) currently consists of six commissioners – Charlotte Mitchell (D – Chair), TroNola D. Brown-Bland (D), Jerry Dockham (R), James Patterson (R), Lyons Gray (R), Daniel Clodfelter (D) – and about 60 staff members. The commissioners are appointed by the governor to serve a term of six years, with the chairperson appointed to serve four year terms. With the recent resignation of Ed Finley and terms up for James Patterson and Jerry Dockham, Gov Cooper nominated three new commissioners Floyd Mckissick (D) Kimberly Duffley and Jeff Hughes, all of which are pending approval.

OH Jurisdiction

The Public Utilities Commission of Ohio (PUCO) consists of five commissioners – Sam Randazzo (I – Chair), Beth Trombold (I), Lawrence Friedeman (D), Dennis Deters (R), Daniel Conway (R) – and about 330 staff members. The commissioners are appointed by the governor to serve five year terms, with the governor electing a chairperson to serve through the duration of their tenure. The next appointment will be at the conclusion of Friedeman’s term in April of 2020.

TX Jurisdiction

The Public Utilities Commission of Texas consists of three commissioners – DeAnn Walker (R – Chair), Arthur D’Andrea (R), Shelly Botkin (R) – and about 215 staff members. The commissioners are appointed by the governor to serve five year terms, with the governor electing a chairperson to serve through the duration of their tenure. The next appointment will be at the conclusion of Botkin’s term later this year. The company transitioned to being regulated by the Texas PUC in 2014, and has been enjoying a 12% current authorized ROE, which we expect to fall under a PUC ratecase proceeding.

WV Jurisdiction

The Public Service Commission of West Virginia consists of three commissioners – Charlotte Lane (R – Chair), Brooks McCabe (D), Renee Larrick (R) – and about 230 staff members. The commissioners are appointed by the governor to serve six year terms, with the governor electing a chairperson to serve through the duration of their tenure.

Table 11: Commissioners by Jurisdiction

State	Commissioners	Position	Political Inclination	Took Office	Term Expires
NJ	Joseph L. Fiordaliso	President	D	2019	2025
	Mary-Anna Holden	Commissioner	R	2018	2024
	Dianne Solomon	Commissioner	R	2013	2019
	Upendra Chivukula	Commissioner	D	2014	2020
	Bob Gordon	Commissioner	D	2018	2023
PA	Gladys Brown Dutrieuille	Chairman	D	2019	2023
	David W. Sweet	Vice Chairman	D	2018	2021
	Norman J. Kennard	Commissioner	R	2017	2019
	Andrew G. Place	Commissioner	D	2015	2020
	John F. Coleman, Jr.	Commissioner	R	2017	2022
KY	Michael J. Schmitt	Chairman	R	2016	2019
	Robert Cicero	Vice Chairman	R	2016	2020
	Talina R. Mathews	Commissioner	R	2017	2021
IL	Carrie K. Zalewski	Chairman	D	2019	2024
	Brien J. Sheahan	Commissioner	R	2015	2020
	Sadzi Martha Olivia	Commissioner	R	2017	2022
	D. Ethan Kimbrel	Commissioner	D	2018	2023
	Maria S. Bocanegra	Acting Commissioner	I	2019	2023
IN	Jim Huston	Chairman	R	2014	2021
	Sarah Freeman	Commissioner	D	2016	2022
	Stefanie Krevda	Commissioner	R	2018	2022
	David Ober	Commissioner	R	2018	2020
	David E. Ziegner	Commissioner	D	1990	2023
NC	Charlotte Mitchell	Chair	D	2017	2023
	ToNola D. Brown-Bland	Commissioner	D	2017	2023
	Jerry C. Dockham	Commissioner	R	2013	2019
	James G. Patterson	Commissioner	R	2013	2019
	Lyons Gray	Commissioner	R	2016	2021
	Daniel G. Clodfelter	Commissioner	D	2017	2023
OH	Sam Randazzo	Chairman	I	2019	2024
	M. Beth Trombold	Commissioner	I	2018	2023
	Lawrence K. Friedeman	Commissioner	D	2017	2020
	Dennis P. Deters	Commissioner	R	2019	2021
	Daniel R. Conway	Commissioner	R	2017	2022
TX	DeAnn T. Walker	Chairman	R	2017	2021
	Arthur C. D'Andrea	Commissioner	R	2017	2023
	Shelly Botkin	Commissioner	R	2018	2019
WV	Charlotte Lane	Chairman	R	2019	2025
	Renee A. Larrick	Commissioner	D	2017	2023
	Brooks F. McCabe	Commissioner	R	2014	2021

Source: BofA Merrill Lynch Global Research, SNL

Merger Timeline

The exhibit below reflects the merger timeline for the Peoples Gas acquisition. Following the hearings related to the acquisition on June 11th, the company provided updated timing expectations of Fall 2019 from mid-year 2019 previously.

Table 12: Merger Timeline

Date	Proceedings
10/23/2018	WTR announced Peoples acquisition
11/13/2018	WTR filed merger applications with PA/WV PUCs
11/20/2018	WTR filed merger applications with KY PUCs
3/13/2019	KY PSC approved merger
3/27/2019	Merger settlement filed with WV PSC
3/29/2019	\$750M Investment from CPPIB
4/18/2019	Announced pricing of common stocks and tangible equity unit offerings
4/24/2019	Announced pricing of \$900M senior notes offering
2Q19	WV PSC approved merger
2Q19	Targeted final order on PA merger proceedings
6/11/2019	Updated targeted closing date of merger to fall 2019
Fall 2019	Targeted closing date of merger

Source: Company report

With the Company's updated timeframe for their expectations around the close of the Peoples Gas acquisition, we are projecting the transaction to close near the beginning of 4Q. The company has noted that they expect the transaction to be accretive to earnings in 2020 and longer term.

Comparing Aqua America with its peers

In the exhibits below, we reflect the latest WTR metrics relative to other water utilities. As the second largest publicly water utility (after AWK), the company is trading at 23.5x versus the broader water sector at 26.2x 2021 estimates on average. We see the street as largely underestimating the earnings ability for Peoples Gas in the near term, and see upside to estimates as largely supportive of valuation. The company's 2% dividend is in line with peers.

Table 13: DPS Comparison Across Water Comps

Companies	Ticker	Market Cap (\$M)	Price (\$)	Div Yield	DPS (\$)			
					2019	2020	2021	2022
American Water	AWK	21,027	116.63	2%	1.97	2.15	2.36	2.58
SJW Group	SJW	1,791	62.87	2%	1.18	1.29	1.39	1.52
Artesian Water	ARTNA	339	36.41	3%	na	na	na	na
Connecticut Water Service	CTWS	845	69.90	2%	1.31	1.38	1.47	1.59
Middlesex Water Company	MSEX	983	59.49	2%	na	na	na	na
California Water Services	CWT	2,450	50.94	2%	0.79	0.83	0.87	na
Average				2%	1.31	1.41	1.52	1.90

Aqua America	WTR	8,837	41.00	2%	0.9	1.0	1.1	na
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Source: BofA Merrill Lynch Global Research estimates, FactSet. Priced as of 12 July 2019.

Exhibit 6: Water Comps

	Ticker	Market Cap	EV	Short Int	Days	P/E Multiples					Earnings per Share					CAGR
						2018A	2019E	2020E	2021E	2022E	2018A	2019E	2020E	2021E	2022E	
Water Utilities																
American Water	AWK	21,206	27,673	2.9%	5.4	35.6x	33.0x	30.3x	27.7x	25.5x	3.30	3.56	3.88	4.24	4.61	8.7%
SJW Group	SJW	1,791	1,879	0.8%	1.2	30.0x	30.3x	27.4x	23.9x	20.5x	2.10	2.08	2.30	2.64	3.07	10.0%
Artesian Water	ARTNA	336	482	0.7%	3.0											
Connecticut Water Service	CTWS	845	1,152	1.4%	2.2	31.5x	29.6x	27.9x	25.7x		2.23	2.36	2.51	2.73		7.1%
Middlesex Water Company	MSEX	991	1,138	1.5%	2.5	30.7x	27.7x	26.9x	25.5x		1.96	2.17	2.24	2.36		6.4%
California Water Services	CWT	2,452	3,507	4.0%	5.1	40.9x	36.5x	31.6x	29.3x		1.25	1.40	1.61	1.74		11.7%
Average		36,507		2.4%	4.4	33.0x	31.2x	28.4x	26.2x	23.0x		5.6%	9.0%	9.1%	11.6%	8.3%
Aqua America	WTR	8,886	9,166	5.3%	11.3	29.3x	33.8x	23.7x	23.5x	22.4x	1.41	1.22	1.74	1.75	1.84	7.0%

Source: BofA Merrill Lynch Global Research, Bloomberg

What about Gas comps?

The 8-10% ratebase CAGR contemplated for Peoples Gas appears meaningfully ahead of peer gas utilities. We do not ascribe a premium to the gas utility in our valuation, however, as we believe the balance of the stand-alone gas utility sector is awarded a premium in part because of M&A expectations. We do not see WTR as a seller; rather the question is if it will continue to acquire gas utility platforms to complement its organic EPS growth outlook.

Exhibit 7: Gas Comps

	Ticker	Market Cap	EV	Short Int	Days	P/E Multiple					Earnings Per Share					CAGR
						2018A	2019E	2020E	2021E	2022E	2018A	2019E	2020E	2021E	2022E	
Gas Utilities																
Atmos Energy Corp	ATO	12,518	15,586	3.0%	4.5	27.1x	24.7x	23.4x	21.7x		3.95	4.33	4.58	4.93		7.7%
Spire Inc	SR	4,337	6,933	2.0%	4.3	23.1x	22.8x	21.9x	21.0x	19.4x	3.70	3.74	3.91	4.07	4.41	4.5%
New Jersey Resources Corp	NJR	4,462	5,646	3.5%	7.2	18.9x	25.0x	22.8x	20.9x		2.65	2.00	2.19	2.39		NM
Northwest Natural Gas Co	NWN	2,137	2,807	4.4%	6.1	31.6x	29.3x	27.8x	26.7x		2.22	2.40	2.52	2.64		5.8%
ONE Gas Inc	OGS	4,813	6,291	2.1%	4.8	28.0x	26.4x	25.3x	23.9x		3.26	3.46	3.61	3.83		5.5%
Southwest Gas Holdings Inc	SWX	4,825	na	1.3%	2.3	23.8x	23.0x	21.4x	19.8x	18.4x	3.82	3.94	4.25	4.59	4.95	6.7%
UGI Corp	UGI	9,260	14,241	4.3%	6.4	19.3x	22.1x	17.2x	16.2x		2.75	2.41	3.09	3.28		6.0%
NiSource Inc	NI	11,014	20,705	4.3%	5.1	22.7x	22.7x	21.9x	20.2x	18.8x	1.30	1.30	1.35	1.46	1.57	4.8%
South Jersey Industries Inc	SJI	3,107	5,755	7.0%	12.8	22.5x	30.4x	21.0x	19.3x		1.49	1.11	1.60	1.75		5.3%
Average		56,472		3.6%	6.0	24.1x	25.2x	22.5x	21.2x	18.9x		-1.8%	9.8%	6.7%	8.0%	5.8%

Source: BofA Merrill Lynch Global Research, Bloomberg

EPS Estimates

The exhibit below reflects our EPS estimates based on the expectation for the acquisition to close later this year. Given the tangible equity unit offering in connection with the acquisition, the company will provide EPS based on a share conversion and excluding the ongoing interest expense from the units. The equity units will convert between 1.1790 and 1.4442 shares per purchase contract depending on share price, and we assume ~16mn incremental shares based on price. That said, we expect parent drag to be mostly limited to holdco debt.

Our '21 estimates of \$1.75 are well above the street at \$1.66, driven primarily from an expectation of stronger earnings at Peoples Gas. Earned ROE degradation at PA, also itself a gradual process drives the relatively flat outlook for its core water utilities through the near-term as well.

Table 14: EPS Estimates

EPS Estimates	2019E	2020E	2021E	2022E	2023E
PA	\$0.79	\$0.80	\$0.77	\$0.82	\$0.86
OH	\$0.07	\$0.07	\$0.07	\$0.08	\$0.08
IL	\$0.07	\$0.07	\$0.08	\$0.08	\$0.09
TX	\$0.06	\$0.06	\$0.06	\$0.06	\$0.06
NC	\$0.04	\$0.04	\$0.04	\$0.04	\$0.05
Other States	\$0.08	\$0.08	\$0.09	\$0.09	\$0.10
Water Utility	1.11	1.12	1.11	1.18	1.24
Peoples Gas	0.16	0.70	0.75	0.79	0.82
Parent & Other	-0.05	-0.08	-0.10	-0.12	-0.14
EPS	1.22	1.74	1.75	1.84	1.92
YoY Growth		43%	1%	5%	4%
Shares O/S	223	238	238	250	254
Fully Diluted Shares O/S	235	254	254	254	254
Consensus	1.36	1.55	1.66		
Consensus '19-21 CAGR					
BofAML CAGR 2019-2021					
DPS	0.92	0.99	1.06	1.13	1.21
Payout Ratio	76%	57%	60%	61%	63%

Source: BofA Merrill Lynch Global Research estimates, company report

Valuation

With our estimates, we set a price objective of \$45 based on a SOTP analysis. We apply the water utility multiple of 26.2x to the water segment (with no discounts to reflect no over-earnings by '21 at any of the subsidiaries) and 21.2x for the gas segment (with a -1x discount to reflect risks related to both no takeout premium reflected in the balance of the sector in our judgement as well as its over-earning ROE profile particularly upfront), grossing each up for the respected growth CAGR. The question is just over what period of time can Peoples Gas navigate substantive rate increases without sacrificing a refund of merger synergy benefits fully; WTR's PA segment was able to maintain its over-earning position for upwards of 7-years. We net out 50% of holdco debt and 50% of interest expense. While we see risk to the water utility multiple premium broadly, we expect WTR to be supported from strong earnings growth and estimates moving higher.

Table 15: WTR SOTP

Water Utilities	2021 EPS		P/E Multiple				Equity Value		
		Peer	Prem/Disc	Low	Base	High	Low	Base	High
Peer Water P/E		26.2x							
Group EPS '18-'22 CAGR		8.30%							
1-year forward group Water multiple		28.4x							
Water Utilities									
States	2021E EPS ROE embedded								
PA	\$0.77	10.0%	0.0x	27.4x	28.4x	29.4x	\$21	\$22	\$23
OH	\$0.07	9.9%	0.0x	27.4x	28.4x	29.4x	\$2	\$2	\$2
IL	\$0.08	9.6%	0.0x	27.4x	28.4x	29.4x	\$2	\$2	\$2
TX	\$0.06	10.0%	0.0x	27.4x	28.4x	29.4x	\$2	\$2	\$2
NC	\$0.04	9.9%	0.0x	27.4x	28.4x	29.4x	\$1	\$1	\$1
Other (including acquisitions)	\$0.09	9.9%	0.0x	27.4x	28.4x	29.4x	\$2	\$2	\$3
Water utilities total (ex-Peoples)	\$1.11			27.4x	28.4x	29.4x	\$30	\$32	\$33
Gas Utilities									
Peer Gas P/E		21.2x							
Group EPS '18-'22 CAGR		5.80%							
Peoples Gas Multiple		22.4x							
	2021E EPS ROE embedded								
Peoples Gas	\$0.75	14.1%	-1.0x	20.4x	21.4x	22.4x	\$15	\$16	\$17
HoldCo Debt									
(50% Netting out Debt) @ Aqua Parent			-752	50%			(\$376)	(\$376)	(\$376)
(50% P/E multiple on Interest Exp)			4.3%	50%			(\$364)	(\$379)	(\$393)
50/50 Weighted Drag from HoldCo Drag							(\$740)	(\$755)	(\$769)
Fully Diluted Shares Outstanding							254	254	254
PO							\$43.00	\$45.00	\$46.00
Current Price								\$41.00	
Dividend Yield								2%	
Total Return								11.89%	

Source: BofA Merrill Lynch Global Research estimates

Debt and Capital Structure

The exhibit below reflects our estimated debt construction across the pro-forma portfolio. We expect debt to move towards 15% at the holdco level, creating an additional parent lag. Our sense from management is that they will look to hold enough debt to finance a run rate of \$100Mn in annual muni acquisitions.

Table 16: Debt Projections

Debt by Construct	2019	2020	2021	2022
Regulated - Legacy Business	2,419	2,588	2,750	2,906
Peoples Gas	1,300	1,387	1,478	1,572
Holding Company	611	689	752	822
Total Debt	\$4,330	\$4,664	\$4,980	\$5,300

Debt by Construct (%)	2019	2020	2021	2022
Regulated - Legacy Business	56%	55%	55%	55%
Peoples Gas	30%	30%	30%	30%
Holding Company	14%	15%	15%	16%

Source: BofA Merrill Lynch Global Research estimates

S&P: (Aqua Pennsylvania)

Following the announcement of the People Gas acquisition, S&P placed subsidiary utility Aqua Pennsylvania on credit watch with negative implications for the A+ issuer rating and their AA- first mortgage bond rating. S&P noted this reflects the likelihood that the transaction would result in materially weaker consolidated financial measures for the overall group. For the rating agency to keep their current investment rating, they look for consolidated FFO/Debt to be 13%-23%, with their current forecast projecting 11.5%-13% following the close of the transaction.

Moody's: Baa2 – Stable Outlook

In late April, Moody's launched on WTR with a Baa2 rating and a stable outlook issued a on the senior unsecured debt. The rating agency noted the low-risk of water and waste water operations and strong regulatory support in the primary jurisdiction of Pennsylvania and diversity across the rest of the portfolio. That said, they expect a declining financial profile due to the pending acquisition (PNG is currently rated Baa2 positive) and debt funded capex. Post close, Moodys expects holding company debt to be roughly 15% of consolidated debt on their calculation.

While Moody's Stable outlook takes into account the weaker financial profile, key ratios of FFO/net debt and retained cash flow (RCF) are expected to be maintained above 12% and 7%, respectively. We see these as the two key indicators to monitor for potential equity needs.

Table 17: Moodys Metrics

	2016	2017	2018	2019E	2020E	2021E	2022E
CFO	412	396	384	614	745	798	846
+/-: Working Capital Adjustments	(1)	7	17	10	26	3	4
CFO Pre-WC	411	403	401	624	771	801	850
+/-: Other Adjustments	(4)	3	1	1	1	1	1
FFO	407	406	402	625	772	802	851
Less: Dividend	131	141	151	205	234	251	282
CFO Pre-W/C - Dividends	280	262	250	418	537	550	568
Less: Capex (Includes Acquisitions)	395	486	644	4,939	865	885	905
FCF	(114)	(231)	(411)	(4,531)	(354)	(337)	(341)
Retained Cash	277	267	251	419	538	551	569
FFO / Debt	20.3%	18.3%	15.3%	13.3%	15.3%	14.9%	14.8%
RCF / Debt	13.8%	12.0%	9.5%	8.9%	10.6%	10.2%	9.9%

Source: BofA Merrill Lynch Global Research estimates, Moodys

Management Bios

Board of Directors

We see WTR's board as particularly qualified relative to the balance of the utility sector with numerous former corporate & business-unit level CEOs, but what is particularly remarkable are the multiple executives who have been previously involved in senior management positions within the utility industry. For instance, the experience offered from SO and DUK, two large cap utility peers, is particularly relevant in addressing strategy. The board recently voted to increase the size of their board to 8 members with the election of Francis Idehen, in line with peer AWK. Francis is a particularly relevant director given his prior role in IR at Exelon.

Christopher H. Franklin is Chairman, Chief Executive Officer and President

Christopher H. Franklin is Chairman, Chief Executive Officer and President of WTR. He was previously president and chief operating officer, regulated operations. He has held several key executive roles in public affairs, customer operations and as regional president of the company's southern and mid-western operations, and was responsible for company's corporate and public affairs federal, state and municipal legislative affairs, investor relations, and communications. He joined WTR in 1992 as director, corporate and public affairs. Prior to that, he worked at PECO Energy Company (an Exelon Company) as regional, civic and economic development officer and was responsible for the review, recommendation and promotion of economic development initiatives in the Philadelphia region. He serves as a director on the National Association of Water Companies' board of directors. Previously, he served on the board of directors of ITC Inc.

He earned his B.S. from West Chester University and his M.B.A. from Villanova University.

Elizabeth B. Amato - Director Since 2018

Ms. Amato, a director since 2018, appointed to the Executive Compensation Committee and the Corporate Governance Committee of the Board, is a human resources executive with over twenty years of leadership experience. She has been Executive Vice President and Chief Human Resources Officer of United Technologies Corp. since November 2015. Previously, she was Senior Vice President, Human Resources and Organization of UTC from August 2012 to November 2015. She joined UTC in 1985 and held a variety of the most senior human resources leadership positions across the corporation in both aerospace and commercial building systems, including UTC Climate, Controls & Security (2011-2012), Carrier (2010-2011), Pratt & Whitney (2006-2009) and Sikorsky (1997-2006).

She holds a bachelor's degree in political science from Davidson College and a law degree from the University of Connecticut. She is a recipient of the YWCA Women Achievers Award, is currently a member of the National Academy of Human Resources CHRO Board Academy, and is a member of the Board of Directors for Children's Healthcare Charity, Inc.

Nicholas DeBenedictis - Chairman Emeritus

Nicholas DeBenedictis currently serves as chairman emeritus. He recently stepped down as the non-executive chairman of the board of Aqua America. Previously, He served as Chairman and CEO of Aqua America (formerly Philadelphia Suburban Corporation) from June 1993 to July 2015. Prior to that, he served as senior vice president of corporate and public affairs for PECO Energy from 1989 to 1992 and was responsible for government relations, economic development and environmental policies, plus implementation of the utility's public policy positions. He also serves on the Board of Exelon. Before that, he worked as president of the Greater Philadelphia Chamber of Commerce from 1986 to 1989. He worked as a Secretary of the Department of Environmental Resources (1983-1986) and Director of the Office of Economic Development (1981-1983) in Pennsylvania

government's cabinet positions. Before joining the cabinet, he was associated with the U.S. Environmental Protection Agency for eight years (1973-1981). He served in the Army Corps of Engineers between 1970 and 1973 reaching the rank of Captain. He is the current president of the Pennsylvania Society, and currently serves on the policy committee of the Pennsylvania Business Council and is a former Chairman of the Council (formerly the Pennsylvania Business Roundtable). He also serves on the Board of Directors for many regional businesses, economic and environmental organizations that include Drexel University, Exelon Corporation, PNC Bank - Southeast Pennsylvania Advisory, P.H. Glatfelter Company, and Independence Blue Cross. He is a past president of the National Association of Water Companies.

He earned his Bachelor's degree in business administration from Drexel University in 1968, and a Master's degree in environmental engineering and science from Drexel in 1969. He received an Honorary Doctorate of Science degree from Widener University, an Honorary Doctorate of Letters degree from Drexel University, and an Honorary Doctor of Humane Letters from Misericordia University.

Daniel J. Hilferty - Lead Independent Director, Director since 2017

Daniel J. Hilferty is Lead Independent Director of the company since 2017. He worked as president and chief executive officer of Independence Blue Cross. Previously, he worked as a Senior Vice President of Corporate and Government Affairs at Mercy Health Corporation in Bala Cynwyd, PA and then as President and CEO of AmeriHealth Caritas Family of Companies (formerly Amerihealth Mercy) in Philadelphia PA from 1996 to 2009.

He earned his undergraduate degree from St. Joseph's University in Philadelphia, Pennsylvania, and a master's degree in public administration from American University. He also serves on the boards of the Greater Philadelphia Chamber of Commerce, the Catholic Foundation of Greater Philadelphia, and FS Investment Corporation III and as chairman of the board of directors for the Blue Cross Blue Shield Association.

Ellen T. Ruff - Director since 2006

Ms. Ruff is director since 2006. She has over 30 years of experience with a major utility company in various management, operations, legal planning and public affairs positions. She is also a partner in the law firm of McGuire-Woods, LLP. Previously, she served as President, Office of Nuclear Development, for Duke Energy Corporation, from December 2008 until her retirement in January 2011. Prior to that, she worked as President of Duke Energy Carolinas from 2006 through 2008. She served Duke Energy organization in various capacities, including: Vice President and General Counsel of Corporate, Gas and Electric Operations; Senior Vice President and General Counsel for Duke Energy; Senior Vice President of Asset Management for Duke Power; Senior Vice President of Power Policy and Planning; and Group Vice President of Planning and External Affairs.. She is also a director of Mistras Group, Inc

Lee C. Stewart - Director Since 2018

Mr. Stewart, a director since 2018 is a private financial consultant with over 40 years of experience as an investment banker, corporate executive and professional director. He has been appointed to the Audit Committee and the Risk and Investment Policy Committee of the Board. Previously, he was Vice President at Union Carbide Corporation from 1996 to 2001, and as Chief Financial Officer of Foamex International, Inc from 2001 to 2002. After that, he served as a director of AEP Industries, Inc., a chemical company listed on the Toronto Stock Exchange from 2000 till 2011, as a director of ITC Holdings Corp. from 2005 to 2016, as well as associated with Momentive Performance Materials Inc., a specialty chemical company in silicone and advanced materials from May 2013 through its successful emergence from bankruptcy in October 2014. He has been director of P.H. Glatfelter, a global supplier of specialty papers and engineered materials, since 2002 and is also director of Mood Media, Inc.

Mr. Stewart has a bachelor's degree from the Wharton School of the University of Pennsylvania

Christopher Womack - Director Since 2019

Mr. Womack is a director of the company since 2019. He has served as President, External Affairs, Southern Company from December 2008 until the present. He has worked in various executive leadership positions at Southern Company since 1988 that includes Executive Vice President, Georgia Power Company from March 2006 to December 2008, Senior Vice President, Fossil & Hydro Power, Georgia Power Company from December 2001 to March 2006, and Senior Vice President, Human Resources from March 1998 to December 2001. He also served as a legislative aide in the U.S. House of Representatives from 1979 to 1987.

Francis Idehen - Director Since 2019

Mr. Idehen is the newest director of the company and was elected to the board at the beginning of June when the board voted to increase their size to 8. He currently serves as managing director and COO at Grosvenor Capital Management, a position he has held since 2017. In his current capacity, he is responsible for overseeing core operations functions, including fund finance, corporate finance, technology, compliance and legal. He is also a member of the firm's operations committee and labor impact fund investment committee. Previously, he has held senior roles at Exelon from 2011-2017, serving as treasurer, head of investor relations and managing director of Exelon's investment office. Prior to that, Idehen served as a Senior Portfolio Manager at Intel. Mr. Idehen has a bachelor's degree in economics from Yale University and an MBA from Harvard Business School.

Leadership Team

Rick Fox - Executive Vice President and Chief Operating Officer, Regulated Operations

Rick Fox serves as Chief Operating Officer (COO) of Aqua America since July 2015 and is responsible for the company's regulated operations, including engineering and environmental compliance.

Prior to that, he served as regional president for Aqua America since January 2012, responsible for managing utility operations in Texas, Illinois, North Carolina, Indiana and Virginia. Before that he was vice president, customer operations and responsible for all customer service operations for Aqua America's regulated operating subsidiaries, including the company's national customer call centers, national meter operations, and company-wide billing and collections. He joined Aqua America in 2002 as manager of customer service following 17 years in the chemical manufacturing industry in both operations and technical management.

He earned his B.S. in chemical engineering from Virginia Polytechnic Institute and State University, and his M.B.A from Villanova University, where he achieved Beta Gamma Sigma honors. He is a member of the American Institute of Chemical Engineers.

Christopher P. Luning - Senior Vice President, General Counsel and Secretary

Christopher P. Luning was appointed Senior Vice President, General Counsel and Secretary for Aqua America, Inc. in May 2012. He is the company's chief legal counsel and responsible for the company's legal, human resources, internal audit, and safety departments. Previously, he worked as a vice president, corporate development and was responsible for corporate development activities. He joined Aqua America in 2003 as assistant general counsel. Prior to WTR, he worked at Hovnanian Enterprises, Inc. as legal counsel.

He earned his B.S. business/political science from Albright College and his J.D. in 1993 from Villanova University. He is licensed to practice law in Pennsylvania and New Jersey.

Matt Rhodes - Executive Vice President, Strategy and Corporate Development

Matt Rhodes works as Executive Vice President, Strategy and Corporate Development for Aqua America since June 2018 and responsible for assisting the chief executive officer with developing, communicating, executing, and sustaining strategic initiatives, with an emphasis on growth. He is also responsible for overall corporate development, as well as acquisitions of regulated and market-based businesses.

Previously, he worked as Managing Director at Goldman Sachs in the Natural Resources Investment Banking Group with a focus on power and utility clients. Prior to that, he served at Bank of America and Duke Capital partners in energy finance roles.

He earned his BBA from the University of Texas at Austin and an MBA, with honors, from the Stern School of Business at New York University.

Robert A. Rubin - Senior Vice President, Chief Accounting Officer and Controller

Robert A. Rubin serves as senior vice president, controller and chief accounting officer (CAO) of Aqua America, since January 2012, and responsible for external and internal financial reporting, taxes, coordinating external audits, corporate accounting and maintaining compliance with accounting standards and principles throughout the company. Previously, he worked as chief accounting officer of the company from 2004 to 2012. Prior to that, he worked as controller for the company from 1999-2004. He joined Aqua America in 1989 as an accounting manager. Prior to that he was associated with KPMG LLP

He is a Certified Public Accountant with a B.S. in accounting from Penn State University and associated with the Pennsylvania and American Institutes of Certified Public Accountants and the National Association of Water Companies – Taxation Committee.

Dan Schuller - Executive Vice President, Chief Financial Officer

Dan Schuller is Executive Vice President and Chief Financial Officer for Aqua America, Inc. and responsible for accounting, tax, treasury, regulatory relations, planning, Sarbanes-Oxley compliance and capital spending in regards to return on investment. Previously, he served as Executive Vice President, Strategy and Corporate Development for Aqua America and was responsible for Aqua's strategic growth initiatives. Prior to Aqua America, he was associated with J.P. Morgan Asset Management – Infrastructure Investments Group as an investment principal. Prior to joining J.P. Morgan, he was a manager at Mars & Co., an international strategy/general management consulting firm and was responsible for consulting engagements related to growth and profitability for Fortune 500 companies and conducted due diligence for private equity firms.

He earned his B.S., M.S. and Ph.D. in civil engineering from Purdue University and also a member of the American Society of Civil Engineers.

Financial Statements

Income Statement

Table 18: Income Statement

	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
<i>Regulated</i>	800	805	835	902	949	966	1,004	1,042
<i>Other & Eliminations</i>	20	5	3	3	3	3	3	3
<i>Peoples Gas</i>	0	0	0	139	643	687	733	770
Operating revenues	820	810	838	1,044	1,596	1,657	1,740	1,815
Operating expenses:								
Operations and maintenance	297	282	308	351	500	513	525	534
Regulated	278	282	292	336	485	498	510	519
Other & Eliminations	20	0	16	15	15	15	15	15
Depreciation	131	136	146	191	330	356	382	409
Amortization	2	0	1	-	-	-	-	-
Taxes other than income taxes	56	57	60	68	98	101	103	105
Regulated	54	55	57	66	96	98	101	103
Other & Eliminations	2	2	3	3	3	3	3	3
Total operating expenses	487	476	515	610	928	969	1,011	1,049
Operating income	333	334	323	434	668	687	730	766
Allowance for funds used during construction	-9	-15	-13	(13)	(13)	(13)	(13)	(13)
Change in fair value of interest rate swap agreements	0	0	60	-	-	-	-	-
Gain on sale of other assets	0	0	-1	-	-	-	-	-
Equity earnings in joint venture	-1	0	-2	(2)	(2)	(2)	(2)	(2)
Other	8	5	2	-	-	-	-	-
Other expense (income)	(2)	(11)	46	(15)	(15)	(15)	(15)	(15)
EBIT	336	345	277	449	683	702	745	781
Interest expense, net	81	88	99	132	196	211	226	241
Income before income taxes	255	257	178	317	487	491	519	540
Provision for income taxes (benefit)	21	17	-14	32	49	49	52	54
Net income	234	240	192	285	439	442	467	486
Adjustments	0	3	59	2	3	3	1	
Adjusted NI	234	243	251	287	442	445	468	486
EPS								
Diluted	1.32	1.36	1.41	1.22	1.74	1.75	1.84	1.92
Fully Diluted Share Count	178	178	178	235	254	254	254	254

Source: BofA Merrill Lynch Global Research estimates, company report

Balance Sheet

Table 19: Balance Sheet

Balance Sheet	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Assets								
Property, plant and equipment, at cost	6509	7004	7648	12,396	12,932	13,461	13,983	14,499
Less: accumulated depreciation	1508	1604	1718	1,910	2,239	2,595	2,977	3,387
Net property, plant and equipment	5,002	5,400	5,930	9,103	9,638	10,168	10,690	11,206
Current assets:								
Cash and cash equivalents	4	4	4	3	5	5	5	6
Accounts receivable and unbilled revenues, net	97	99	101	126	193	200	210	219
Inventory, materials and supplies	13	14	16	20	30	31	33	34
Prepayments and other current assets	13	13	23	23	23	23	23	23
Assets held for sale	2	2	3	3	3	3	3	3
Total current assets	129	131	147	176	254	263	275	286
Regulatory assets	949	714	788	788	788	788	788	788
Deferred charges and other assets, net	31	38	39	39	39	39	39	39
Investment in joint venture	7	7	7	7	7	7	7	7
Goodwill	42	42	53	1,628	1,628	1,628	1,628	1,628
Total assets	6,159	6,332	6,964	11,741	12,355	12,893	13,427	13,953
Liabilities and Equity								
Aqua America stockholders' equity:								
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 181,151,827 and 180,700,251 in 2018 and 2017	90	90	91					
Capital in excess of par value	798	807	820					
Retained earnings	1033	1133	1174					
Treasury stock, at cost, 3,060,206 and 2,986,308 shares in 2018 and 2017	-71	-73	-76					
Accumulated other comprehensive income	1	1	0					
Total stockholders' equity	1,850	1,958	2,009	4,706	4,913	5,108	5,293	5,473
Long-term debt, excluding current portion	1760	2029	2419					
Less: debt issuance costs	22	22	21					
Long-term debt, excluding current portion, net of debt issuance costs	1,738	2,008	2,398	4,330	4,664	4,980	5,300	5,619
Current liabilities:								
Current portion of long-term debt	151	114	145	274	296	317	339	360
Loans payable	7	4	15	15	15	15	15	15
Accounts payable	47	59	77	96	147	153	161	168
Bank overdraft	13	22	9	9	9	9	9	9
Accrued interest	18	21	23	23	23	23	23	23
Accrued taxes	26	24	22	22	22	22	22	22
Interest rate swap agreements	0	0	60	60	60	60	60	60
Other accrued liabilities	40	41	47	47	47	47	47	47
Total current liabilities	302	284	399	547	620	647	676	705
Deferred credits and other liabilities:								
Deferred income taxes and investment tax credits	1269	769	845	845	845	845	845	845
Customers' advances for construction	92	93	93	93	93	93	93	93
Regulatory liabilities	251	542	531	531	531	531	531	531
Other	116	107	97	97	97	97	97	97
Total deferred credits and other liabilities	1,727	1,512	1,567	1,567	1,567	1,567	1,567	1,567
Contributions in aid of construction	542	571	591	591	591	591	591	591
Total liabilities and equity	6,159	6,332	6,964	11,741	12,355	12,893	13,427	13,953

Source: BofA Merrill Lynch Global Research estimates, company report

Cash Flow Statement

Table 20: Cash Flow Statement

Cash Flow Statement	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Cash flows from operating activities:								
Net income	234	240	192	287	442	445	468	486
Adjustments to reconcile net income to net cash flows from operating activities:								
Depreciation and amortization	133	137	147	191	330	356	382	409
Deferred income taxes	17	14	-15					
Provision for doubtful accounts	6	5	5					
Stock-based compensation	5	6	8					
Loss (gain) on sale of utility system and market-based business unit	-1	1	0					
Gain on sale of other assets	0	0	-1					
Interest rate swap agreements	0	0	60					
Net change in receivables, inventory and prepayments	-4	-6	-18	(10)	(26)	(3)	(4)	(4)
Net change in payables, accrued interest, accrued taxes and other accrued liabilities	5	-1	1					
Pension and other postretirement benefits contributions	-10	-16	-14					
Other	11	3	5					
Net cash flows from operating activities	396	381	369	469	745	798	846	892
Cash flows from investing activities:								
Property, plant and equipment additions	-383	-478	-496	(639)	(865)	(885)	(905)	(925)
Acquisitions of utility systems and other, net	-9	-6	-146					
Acquisitions				(4,300)				
Net proceeds from the sale of utility systems/other	8	1	1					
Other	1	2	1					
Net cash flows used in investing activities	-383	-480	-640	-4,939	-865	-885	-905	-925
Cash flows from financing activities:								
Customers' advances and contributions in aid of construction	7	7	7					
Repayments of customers' advances	-4	-7	-6					
Net proceeds (repayments) of short-term debt	-10	-3	12	129	22	21	21	21
Proceeds from long-term debt	504	591	1332	1,813	333	317	320	318
Proceeds from Amortizing Notes				119				
Repayments of long-term debt	-373	-359	-914					
Change in cash overdraft position	-8	9	-13					
Proceeds from issuing common stock	1	1	5	1,294				
Prepaid Stock Purchase Contracts	0	0	0	571				
Proceeds from stock Purchase agreement	0	0	0	750				
Proceeds from exercised stock options	4	3	1					
Share-based compensation windfall tax benefits	1	0	0					
Repurchase of common stock	-3	-2	-3					
Dividends paid on common stock	-131	-141	-151	(205)	(234)	(251)	(282)	(307)
Other	-1	-1	-1					
Net cash flows from (used in) financing activities	-12	100	271	4,470	121	87	59	33
Net (decrease) increase in cash and cash equivalents	1	0	-1	0	2	0	0	0
Cash and cash equivalents at beginning of year	3	4	4	4	3	5	5	5
Cash and cash equivalents at end of year	4	4	4	3	5	5	5	6

Source: BofA Merrill Lynch Global Research estimates, company report

Price objective basis & risk

Aqua America (WTR)

Our price objective is \$45 based on our SOTP approach, applying a peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. We apply a 1.0x discount to Peoples Gas as we expect earned ROEs to be driven down over time. We net out parent debt and parent interest expense associated with parent debt 50/50 weighed basis.

Risks to the downside are acquisition risk, deteriorating regulatory outcomes, and risks from a lower rating following the diversification into gas.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Electric Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Aqua America	WTR	WTR US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	FirstSolar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Pattern Energy Group	PEGI	PEGI US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Terraform Power	TERP	TERP US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith

iQ^{method}™ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt, Less Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	$\text{Market Cap.} = \text{Current Share Price} * \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQ^{method}™ is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQ^{method} are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQ^{database}™ is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Merrill Lynch.

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Disclosures

Important Disclosures

Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	61	44.20%	Buy	47	77.05%
Hold	42	30.43%	Hold	30	71.43%
Sell	35	25.36%	Sell	27	77.14%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1516	51.23%	Buy	942	62.14%
Hold	687	23.22%	Hold	431	62.74%
Sell	756	25.55%	Sell	380	50.26%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: **A - Low**, **B - Medium** and **C - High**. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its **Coverage Cluster** (defined below). There are three investment ratings: **1 - Buy** stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; **2 - Neutral** stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and **3 - Underperform** stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: **7 - same/higher** (dividend considered to be secure), **8 - same/lower** (dividend not considered to be secure) and **9 - pays no cash dividend**. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Merrill Lynch report referencing the stock.

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BofAS or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: Aqua America.

BofAS or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer or an affiliate of the issuer within the next three months: Aqua America.

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Other Important Disclosures

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